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S E C R E T SECTION 01 OF 02 YEREVAN 000794

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SUBJECT: ARMENIAN INSTITUTE OF APPLIED CHEMISTRY

Classified By: Charge Vivian Walker for reasons 1.5 (B) and (D).

SUMMARY

1. (S) Emboff visited the Armenian Institute of Applied Chemistry (ARIAC) for an update on its activities. The chemical institute is going strong, boasting about USD 270,000 in export sales and USD 50,000 in domestic sales of chemical compounds in 2003. ARIAC's client base includes companies from Japan, the United States, Canada, Europe, Egypt and Jordan. ARIAC anticipated an approximate 80 percent growth in 2004. ARIAC officials claim to adhere to international guidelines concerning the export of dual use chemicals. END SUMMARY.

ARIAC SOON TO PRIVATIZE

2. (S) ARIAC director Gagik Hasratyan claimed that the company will soon privatize, noting that ARIAC receives no government funding and relies totally on sales of its chemical compounds to various international and domestic clients. Hasratyan told us that technically the Government of Armenia (GOAM) still owns ARIAC but that the financial relationship ended in 1994. Hasratyan hoped that by the end of 2004 ARIAC would be fully privatized and then could entertain international investment opportunities and possibly a public stock offering. ARIAC had some investment interest from Jordanian and Israeli companies but Hasratyan plans to hold off on any serious discussion until the privatization process is completed.

3. (S) ARIAC has approximately 77 employees of which about 39 are technical specialists. Hasratyan said that he wanted to expand and was looking for at least 10 more good chemists. Salaries were approximately USD 200 a month plus bonuses, which Hasratyan felt was competitive for Armenia. Hasratyan showed us ARIAC's web site, WWW.ARIAC.CO.UK., an ARIAC color catalog and an export products list which showed the chemical compounds for sale along with their international identification numbers. Our tour of the ARIAC featured working laboratories with Soviet-era equipment. Hasratyan explained that he wanted to buy new equipment, but in the meantime his chemists were able to continue to create European quality chemical compounds owing to their experience and high expertise. He said that after ARIAC chemists create a chemical compound for a client, they then utilize a nuclear magnetic resonance spectroscopy located at a neighboring institute to ensure the quality of the compound. After privatization of ARIAC, Hasratyan also would like to receive an international certification to manufacture and sell pharmaceutical products.

ARIAC'S CLIENTS

4. (S) Hasratyan told us that ARIAC had sold compounds to well-known trans-national chemical companies to include Lancaster, Oldridge, and Sigma for about 25 percent of what they in turn were sold on the world market. ARIAC was also currently negotiating an exclusive contract with a Japanese company for a long term supply of chemical compounds. Hasratyan said that previously he had negotiated with Pakistani and Indian chemical companies without any positive results. ARIAC was also interested in buying and selling chemicals with Chinese Chemical companies, but Hasratyan stated he was cautious as Chinese companies do not have a good reputation for reliability and quality.

5. (S) Hasratyan noted candidly that in 1993 his company was involved in the sale of a dual use item to a Syrian entity which caught the attention of the U.S. government and was subsequently stopped. Hasratyan said that he understood the reasoning but lamented that this had cost his company a great deal of money and time and wished those concerns had been raised by the GOAM before he put money into the sale. Hasratyan told us that he has had limited business contact with Syrian entities since then. Hasratyan added that he wanted to do business with Iranian chemical companies but has been unsuccessful. He told us that twice in 1994, the

Iranian government discussed possible projects with ARIAC; once ARIAC lost interest, and another time the Iranians simply disappeared from the negotiating table. Hasratyan has a current interest in starting a joint venture with an Iranian chemical company to produce food preservatives but has had little success in moving it forward.

SAFEGUARDS IN EXPORTING CHEMICALS

16. (S) When asked about export safeguards, Hasratyan explained that ARIAC strictly follows UN guidelines concerning dual use chemicals. Before any sale was considered, ARIAC had to submit an application to the GOAM for approval. After receiving GOAM approval, ARIAC exports then had a final check by customs before being exported. Hasratyan added that since most of his sales were a kilogram or less, he generally shipped through an overnight delivery company. Hasratyan's only complaint was that the GOAM sometimes took too long to approve an export and as a consequence ARIAC occasionally lost sales. Hasratyan also said that ARIAC requires its clients to adhere to regulations concerning dual use chemicals. On three occasions, he noted, European companies had asked for potential dual use chemical compounds. When ARIAC officials asked for the required documentation for approval to receive these chemicals, the companies never followed up.

WALKER